

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

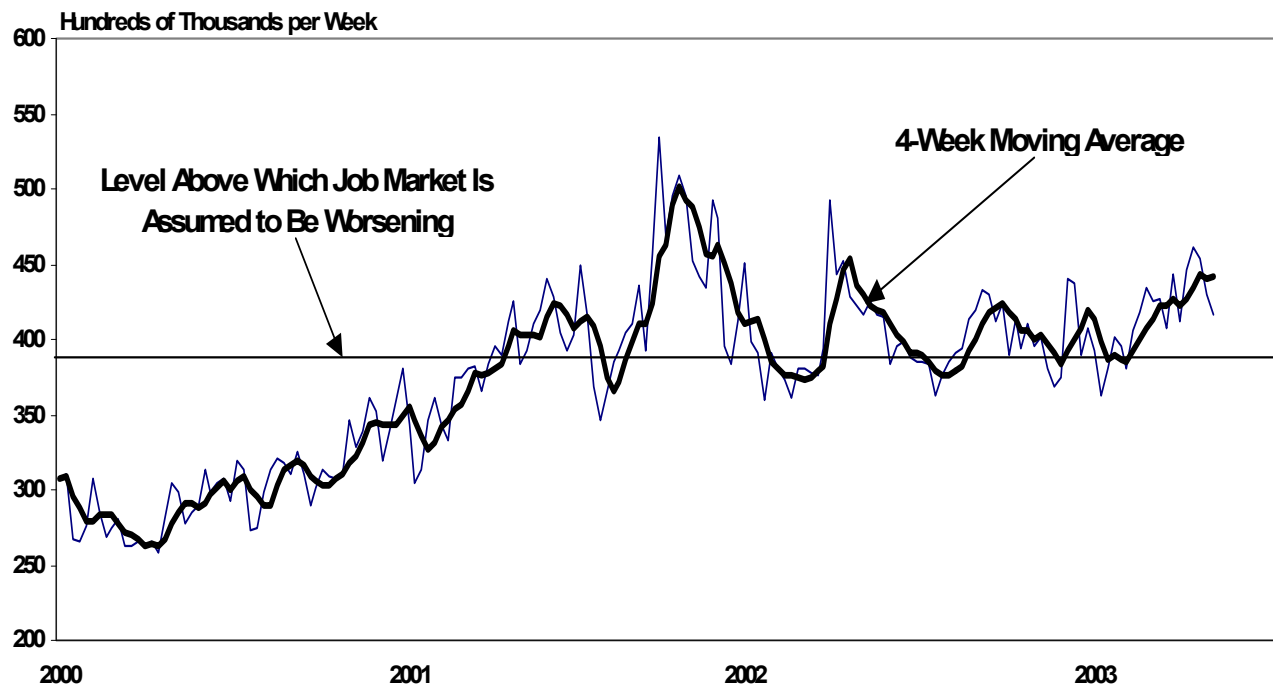
May 16, 2003

Economic Data Show Post-War Weakening

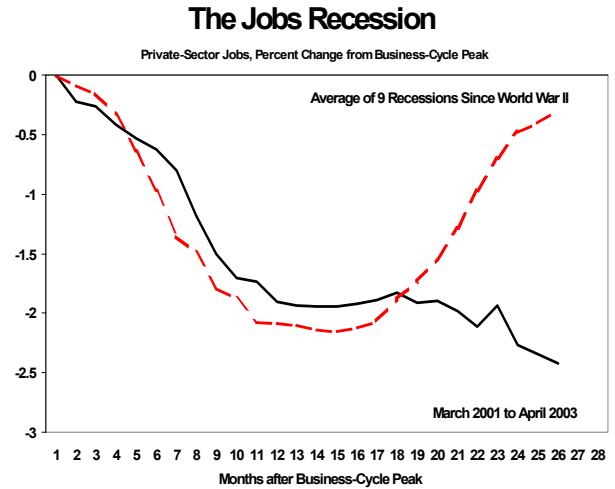
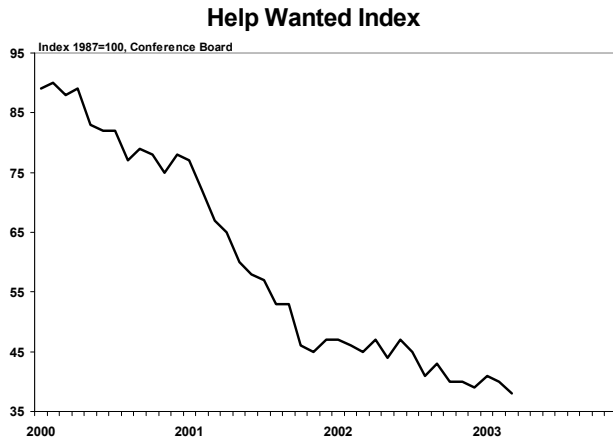
Dear Democratic Colleague,

- *The Labor Department reported yesterday that new claims for unemployment insurance remained above the bellwether level of 400,000 in the week ending May 10.* Initial claims have now exceeded 400,000 per week for thirteen consecutive weeks. The pace of job loss is beginning to compare with that seen in late 2001 and early 2002. Indeed, over the last three months, the economy has lost over half a million private-sector jobs.

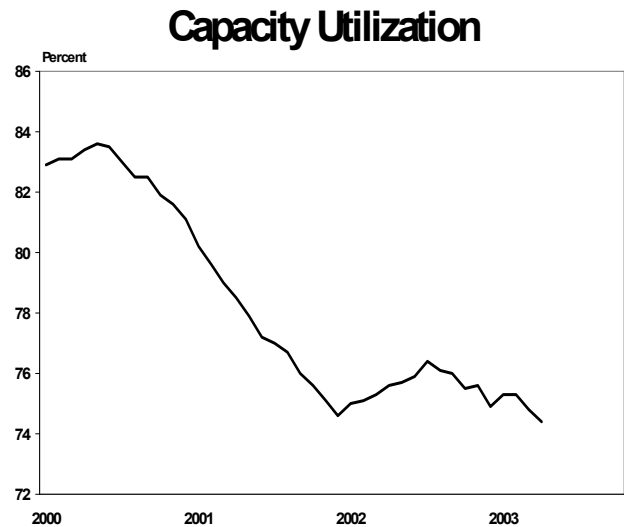
New Weekly Claims for U. I.



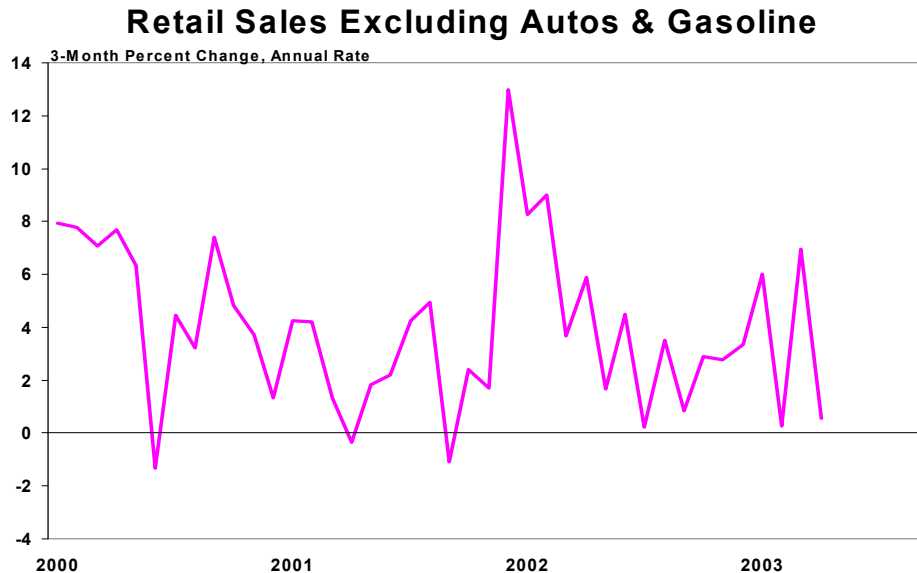
- ***The pace of new hiring also appears to be headed lower, reinforcing labor market weakness.*** The Conference Board reports that its index of help-wanted advertising sank to its lowest level in 40 years in March. The higher pace of job loss — as indicated by high initial jobless claims — combined with the weak outlook for becoming re-employed strongly suggests that the economy may continue to shed jobs in coming months.



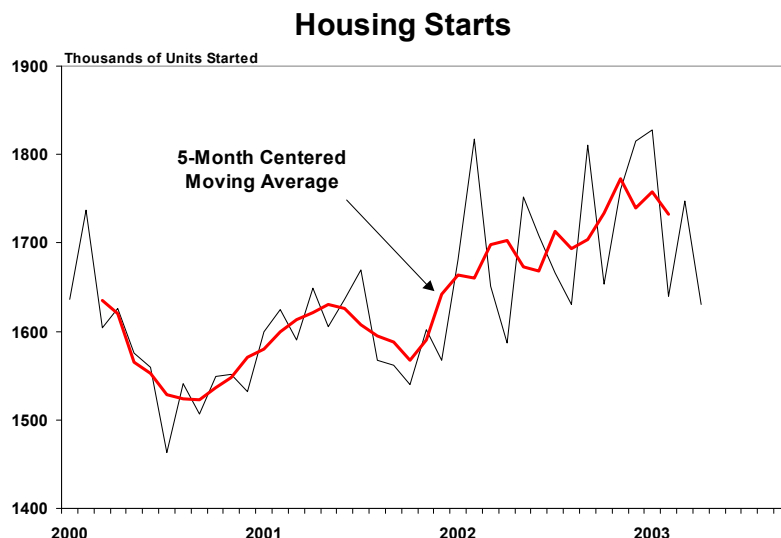
- ***The Federal Reserve reported yesterday that industrial production fell 0.5 percent in April, the third consecutive month that this sector has failed to expand.*** As with the job market, declines for the industrial sector appeared to have stopped last year, but this morning's data suggest renewed deterioration. The April drop in production meant that capacity utilization shrank to 74.4 percent, the lowest level in almost 20 years. Current slack in capacity illustrates why Republicans' plan to use long-term tax breaks to foster new investment will not boost the economy now when it needs it.



- ***Retail sales remain sluggish, compounding weak business demand.*** Retail sales unexpectedly fell 0.1 percent in April, disappointing those who had expected a pickup in consumer demand after the fall of Baghdad. Retail sales are not adjusted for inflation. Therefore, the fact that they essentially have not changed over the last three months — except for volatile auto and gasoline sales — means that real sales volume has actually fallen.



- ***Housing, a sector that had been supporting economic growth, now appears to have weakened as well.*** The Commerce Department reported this morning that housing starts declined 6.8 percent in April and are down 10.2 percent over the last four months. Waning demand for new housing is a particular concern because new home purchases typically spur other kinds of household spending and because new home construction has accounted for 30 percent of meager 1.5 percent GDP growth during the last two quarters.



- ***Private-sector forecasters have marked down their estimates for growth this year.***
For instance, Macroeconomic Advisers — a respected forecasting firm consulted by the White House among others — now believes that real GDP will increase at only a 1.1 percent annual rate this quarter. This would be a bit worse than the pace in the two preceding quarters, 1.6 percent and 1.4 percent respectively. If growth does not accelerate from this sluggish pace, unemployment will rise and economic performance will fall far short of the assumptions on which Administration bases its budget projections.

Sincerely,

John M. Spratt, Jr.
Ranking Member